Investment Strategy of Institutional Investors in Japan and France

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Abstract

This study compares the investment behavior of institutional investors in Japan and France. Using the data of firms listed on the First Section of Tokyo Stock Exchange and the data of firms making up SBF120 in France during 2005-2010, this paper examines the relationship between institutional investors and firm performance in Japan and France. The results suggest there was a statistically significant difference between the change in institutional investors' shareholdings and ROE, proxy for firm performance, in Japan, whereas a significant difference was not observed in France. However, by classifying the firms into three groups based on the change in the ownership share of institutional investors during 2005-2010 in France, it was observed that the mean value of ROE in group 3 is higher than in other groups, indicating that the group with the highest increase of institutional investor's ownership during the period showed better performance than other groups. The results imply that institutional investors select firms for investment based on the expected performance of ROE in both countries.

Keywords：corporate governance, institutional investor, firm performance, value creation

1．Introduction

Institutional investors have become active in strengthening corporate governance with an eye of enhancing corporate value in Japan and France since the beginning of 2000s. They exercise the voting rights at the general shareholders' meeting and some of them engage in dialogue with investee companies in order to enhance the value of investee firms. However, the investment behavior of institutional investors and monitoring activity is not well-known. The paper considers the relationship between investment behavior and firm's value creation of institutional investors. Corporate governance reform has been promoted with the intention of improving the corporate value through shareholder-oriented management style. Governance guidelines and monitoring by institutional investors is expected to affect the improvement of corporate performance. After examination of the impact of governance guidelines and monitoring, the relationship between corporate governance and financial performance is empirically looked into in both countries in this study. Relationship between corporate governance and firm performance is not clear in spite of abundant empirical research that has been made so far in a number of countries. Generally speaking, institutional investors have a tendency to invest in companies keen on improving governance structure. As such, the strength of governance might have an impact on funding activities of firms. The debate on corporate governance has become active since the mid-1990s in Japan and France. The increasing international ownership had a significant impact on corporate governance in both countries. CALPERS, a longtime leader of the US corporate governance movement, had its first major round of meetings with European and Japanese corporate managements in 1994.

The contributions of this paper is twofold The first is that the paper employs a dynamic analysis of the changes of share ownership of institutional investors during FY2005-FY2010 for the examination of firm performance, instead of conventional static analysis which employs share ownership of institutional investors at a specific date. The second is to appreciate the investment behavior, inter alia, criteria on investment in and value creation of firms by institutional investors in Japan and France. The study consists of eight parts. In the next section, the paper summarizes the evolution of corporate governance in Japan and France followed by literature review. Section 4 describes comparison of corporate governance between Japan and France and some areas for improvement and research design is explained in section 5. Section 6 presents results and analysis, and implications for Japan drawn from the practice of corporate governance in France are discussed in section 7. The last part concludes the study with general remarks.

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2. Institutional Investors

Institutional investors are organizations that pool large sums of money which they invest in various companies. Insurance companies, mutual funds, investment advisors, pension funds, hedge funds, private equity, and university endowments are the most common types of institutional investors. They have some influence in the management of firms because they are entitled to exercise the voting rights. As such, they can actively engage in corporate governance. There are different types of institutional investors. Bushee (1998) classifies institutional investors in three groups. Dedicated institutional investors characterized by concentrated and long term institutional holdings, transient institutional investors with short term and diversified holdings while Quasi-indexers have diversified and long term holdings. He finds that dedicated institutional investors are involved in monitoring. Their role in the economy is to act as highly specialized investors on behalf of others. Çelik, S. and M. Isaksson (2013) classifies institutional investors in three categories. The first category of institutional investors is referred to as "traditional" investors and comprises pension funds, investments funds and insurance companies. Second category is referred to as "alternative" institutional investors and comprises hedge funds, private equity funds, exchange-traded funds and sovereign wealth funds. Third category is referred to as "asset managers" that invest in their clients' name.

Numerous institutional investors act as intermediaries between lenders and borrowers. Thus, they have a critical importance in the functioning of the financial markets. Acting as savings pools, they also play a critical role in guaranteeing a sufficient diversification of the investors' portfolios. Their greater ability to monitor corporate behavior as well to select investors' profiles implies that they help diminish agency costs. Furthermore, they influence corporate payout and investment policies. Higher payouts are encouraged by institutional investors, especially in firms with high free cash flow and poor investment opportunities. They also positively influence stock repurchases, particularly in firms with high information asymmetry. The substitution of stock repurchases for dividends as a percentage of total payout is frequently encouraged by them.

3. Literature Review

Institutional investors as corporate monitors are a focus of many studies and research. It is widely argued that institutional investors are an important corporate governance mechanism that improves firm performance, as they possess both the ability and the incentive to monitor and discipline corporate managers (Ping & Wing, 2011). Rose (2007) justifies the effectiveness of institutional investors as a corporate governance tool based on the grounds that institutional investors might discipline management, because the free-rider problem associated with dispersed ownership is alleviated. However, literature on institutional investor's influence on corporate governance in Japan is rather limited. Mizuno and Tabner (2009) discuss the evolution of institutional investor's influence on corporate governance in Japan. Pioneer work on institutional investor in Japan was carried out by Omura, et all. (2001) and Yonezawa & Hashimoito (2002). The former clarified the institutional investor's behavior and a change in attitude based on the survey and revealed that the behavior varies depending on the type of institutional investors. The latter pointed out that the guideline on the voting is required in order to exercise voting rights in earnest. Seki (2005) and Miwa (2006) argue that institutional investors have become active in accordance with legal changes in order to strengthen the monitoring functions in Japanese companies and they have grown to substantial size and own significant percentages of individual companies. Ueda (2007) describes that institutional investors seek greater disclosure and accountability in terms of performance and corporate governance. The shareholder activism of institutional investors was initiated by foreign investors followed by Japanese institutional investors. The institutional investors and corporate governance in various countries is described in the book entitled "The institutional investors and corporate governance" (edited by Baum, et al., 1993). The Centre for European Policy Studies (1995) points out that international diversification and increasing cross-border activity of institutional investors can be instrumental in changing corporate governance standards as a result of the active stance towards investment that is required by local laws and codes. Mallin (2007) argues that there has been a general increase in the level of engagement of institutional investors with their investee companies. Monco and Finet (2011) describes the influence of long term institutional investors on corporate governance and strategy by citing the case of Wendel in France.

In UK, the Cadbury (1992) Committee considered institutional investors as having a special responsibility to ensure

that its recommendations are adopted by companies, stating that 'we look to the institutions, in particular, to use their influence as owners to ensure that the companies in which they have invested comply with the Code'. Similarly, Greenbury (1995) and Hampel (1998) Committees emphasized an important role played by institutional investors in ensuring corporate governance. The Combined Code (2003) principles of good governance state the following concerning the role of institutional shareholders:

(1) Institutional shareholders should enter into a dialogue with companies based on the mutual understanding of objectives;

(2) When evaluating companies' governance arrangements, particularly those relating to board structure and composition, institutional investors should give due weight to all relevant factors drawn to their attention; and

(3) Institutional shareholders have a responsibility to make considered use of their votes.

Moreover, Financial Reporting Council of UK (2012) sets out the principle of institutional investors which require them to publicly disclose their policy on how they discharge their stewardship responsibilities. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration.

Three-quarters of institutional investors say that board practices are at least as important as financial performance when they evaluate companies for investment (Coombes and Watson, 2000). Over 80 percent of them say that they would pay more for the shares of a well-governed company than for those of a poorly governed one with a comparable financial performance. It is, therefore, surmised that there exists a positive relationship between good corporate governance and institutional investor's attitudes. But a question arises as to whether companies with a high ratio of institutional ownership outperform those with lower institutional ownership. So far, various studies suggest that there has been no strong evidence of correlation between share ownership of institutional investors and financial performance of firms. However, a company with good corporate governance is more likely to attract investment from institutional investors compared to poorly governed companies (Mckinsey & Co, 2002). Another question is whether institutional investor activism targeted at specific companies brings about better performance. Shareholders are growing increasingly active in the United States and elsewhere because they believe that better corporate governance will bring them higher rewards. Daily, et al. (1996) found no significant relationship between firm performance measured by abnormal stock price returns, return on assets, or return on equity and ownership by institutions as a whole, or ownership by activist institutions. However, Nesbitt (1994) reports positive long-term stock price returns to firms targeted by CalPERS. Opler and Sokobin (1997) find significant above-market performance in the year after targeting. Sahut and Gharbi (2011) shows that there exists positive impact of institutional activism by analyzing firms making up SBF120 during 2006-2008. In spite of the fact that the amount of activism has increased during the past decade, a majority of the studies, however, could not find a link between monitoring and an increase in firm performance.

Gompers, et al. (2003) found that in 1991-99, investors going long on well-governed firms, as defined by an index combining 24 different aspects of corporate governance, while shorting poorly-governed ones, would have enjoyed an unusually high annual return of 8.5%. Similarly strong returns were found for a trading strategy based on a narrower list of what reformers consider the six core elements of good corporate governance, such as making the company's whole board face re-election each year, and not having any "poison pill" defenses against takeovers. However, a recent study by Bebchuk, et al. (2010) doubts the results of the research by Gompers, et al. by repeating the study for 2000-08. It finds that, in contrast with the 1990s, neither the 24-factor index nor the six-factor one would have helped investors beat the market. They argue that the disappearance of the good-governance premium during the past decade is actually a sign that investors have woken up to the importance of governance. They think that this was due to a huge increase in discussion of the issue in the media in 2001-02, following the Enron and WorldCom scandals and the publication of the Gompers study. As a result, they argue, early in the decade differences in the quality of governance between different firms were fully incorporated in their share prices. Since this adjustment was a one-off, well-governed firms' shares have not subsequently outperformed the market.

4. Research Design

4.1 Japan

Selection of firms and grouping

In this paper, the data of the firms are those which were continuously listed on the first section of Tokyo Stock Exchange (TSE) from FY2005-FY2010 (April 2005 to March 2011) and are constructed using NEEDS-Cges and financial reports of firms. The total number of firms inspected was 1,334 companies excluding banks and financial institutions. Traditionally, the relationship between institutional investors and firm performance has been studied in relation to the structure of ownership share at a certain date. The feature of this study lies in the dynamic analysis by examining the effect of the change of ownership share of institutional investors on firm performance during FY2005 and FY2010, rather than the traditional static analysis using the ownership share at a certain date. Types of typical institutional investors include pension funds, trust banks, insurance companies, investment advisors and investment trusts. The relationship between the change in the ownership share of institutional investors and firm performance covers six-year period from FY2005 through FY2010. First, the relationship between the change in the ownership share of institutional investors and firm performance is looked into. Second, the firms are divided into five groups as below from the viewpoint of an increase in the ownership share of institutional investors:

a. group 1: first quintile-the least increase in the ownership share of institutional investors (266 firms)
b. group 2: second quintile-the second least increase in the ownership share of institutional investors (267 firms)
c. group 3: third quintile- the middle increase in the ownership share of institutional investors (267 firms)
d. group 4: fourth quintile-the second highest increase in the ownership share of institutional investors (267 firms)
e. group 5: fifth quintile-the highest increase in the ownership share of institutional investors (267 firms)

There are a number of financial indicators to gauge firm performance including a share price return, ROA, ROE, and Tobin's q. In this study, ROE is used as proxy of firm performance.

4.2 France

For France, companies that made up the SBF120 in 2005 and 2010 are used. The data are collected from those companies which continuously made up the SBF120 in 2005 and 2010. Large companies composing CAC40 are also separately inspected. The SBF 120 (Société des Bourses Françaises 120 Index) is a French stock market index. It is based on the 120 most actively traded stocks listed on Euronext Paris. It includes all 40 stocks in the CAC40 index plus a selection of 80 additional stocks listed on the Premier Marché and Second Marché under Euronext Paris. The typical example of companies belonging to CAC40 includes Air Liquide, Alcatel-Lucent, AXA, Carrefour, EADS, Groupe Danone, L'Oréal, LVMH, Michelin, PSA Peugeot Citroën, Saint-Gobain, SANOFI-AVENTIS, Société Générale, Suez Environnement, Total, Vinci, and Vivendi. Companies listed on the Euronext Paris are divided into compartment A, compartment B, compartment C, in accordance with the market capitalization; € 1 billion or more for compartment A, € 150 million ~ € 1 billion for compartment B, and less than € 150 million for compartment C. In addition, there exists foreign compartment. In terms of market segments of inspected companies, all belong to compartment A for CAC40 companies except for 2. On the other hand, 47 companies belong to compartment A, 23 companies to compartment B, 9 companies to compartment C, and 1 company to foreign compartment for non-CAC40 companies. The number of samples used for this analysis is 111 due to the limitation of data on share ownership of institutional investors. As proxy for performance, ROA, ROE, and TobinQ are used. The companies are divided into three groups as follows from the viewpoint of changes in the ownership share of institutional investors:

a. group 1: first one-third of companies-the least increase in the share ownership of institutional investors (37 companies)
b. group 2: second one-third of companies-the middle increase in the share ownership of institutional investors (37 companies)
c. group 3: third one-third of companies-the highest increase in the share ownership of institutional investors (37 companies)

Data used for the analysis are the annual report of each company and Thomson One.

5. Results and Analysis

5.1 Japan

It was found that during the period of FY2005-FY2010 institutional investor's ownership decreased from 25.9% to 22.5% and the change of institutional investor's ownership share in each group during the same period is shown below:
Group 1: -51.5%~-9.09% mean: -15.72%, Group 2: -9.09%~-4.06% mean: -6.29%
Group 3: -4.06%~0.90% mean: -2.42%, Group 4: -0.88%~2.13% mean: 0.52%
Group 5: 2.16%~31.14% mean: 6.87%
To look into the above relationship the following variables are used for the statistical analysis and the acronym of variables used in the analysis appears below.
Acronym of variables:
INST: ownership share of institutional investors
INST_FRGN：ownership share of foreign institutional investors
INST_DOME：ownership share of domestic institutional investors
FRGN: ownership share of foreigners
FRGN_CORP: ownership share of foreign corporation
CORSS: ratio of cross shareholding
ANTE: ratio of stable shareholding
BRD: number of board members
ID: number of outside directors
EROE3:excess returns over the three year average ROE controlled by industry and firm size
XXX_CHANGE：subtraction of 2005 from 2010 figures

As shown in Table 1, domestic institutional investors, on average, have reduced the shareholding ratio compared to foreign institutional investors during the analysis period. However, standard deviation in domestic and foreign institutional investors is at 6.1% and 6.7%, indicating that the stock replacement was carried out relatively frequently with virtually the same degree. On the other hand, foreign corporations did not change the shareholding ratio so much, as evidenced by the small number of a standard deviation of 1.4%. The standard deviation of stable shareholders, which were assumed to be inactive traders, was higher in the analysis period than institutional investors, suggesting that there was more buying and selling compared to them. In addition, surprisingly, relatively high standard deviation of 4.8% was observed in the cross-shareholding shareholders. As a measure of firm performance, the mean of ROE during 2005-2010 (ROE05_10) and the excess returns of the mean of ROE for the three years up to the year 2010 subtracted by the excess returns of the mean of ROE for the three years up to the year 2005 after adjusting the size and industry (EROE3_CHANGE) are used.

Table 1: Descriptive statistics

	INST_CHANGE	INST_FRGN_CHANGE	INST_DOME_CHANGE	FRGN_CHANGE	FRGN_CORP_CHANGE	CROSS_CHANGE	ANTEI_CHANGE	BRD_CHANGE	ID_CHANGE	EROE3_CHANGE	ROE05_10
Mean	−3.40	−1.26	−2.13	−1.24	0.03	0.62	1.50	−0.90	0.26	−0.66	4.06
Median	−2.37	−0.79	−1.28	−0.78	0	0	0.87	0	0	0.05	4.93
Maximum	31.14	29.37	35.92	29.37	27.68	25.31	54.77	13	6	213.85	36.81
Minimum	−51.15	−34.47	−47.74	−34.47	−11.71	−26.10	−53.86	−19	−6	−159.73	−190.19
Std. Dev.	8.41	6.71	6.10	6.68	1.39	4.80	8.64	2.90	0.91	15.49	10.33

Table 2 represents correlation matrix of various variables. As expected, the change in ownership share by foreign institutional investors and that of by foreigners has a very high correlation coefficient of 0.98. The change in ownership share of foreign institutional investors and that of foreign corporation has a moderately negative correlation coefficient of -0.12. In this regard, it is meaningful to analyze by separating the share ownership of foreign institutional investors and foreign corporation. Looking into the correlation with the performance, moderate correlation coefficient of 0.22 is observed between EROE3_CHANGE and INST_CHNAGE and both foreign and domestic institutional investors'

correlation with EROE3_CHANGE is also moderate. However, there is virtually no correlation between FRGN_CORP_CHANGE and EROE3_CHANGE. Further, the change of ratio of stable shareholding (ANTEI) has a negative correlation with EROE3_CHANGE. On the other hand, although the correlation with ROE05_10 and INST_CHNAGE is moderate, the correlation between ROE05_10 and INST_DOME_CHANGE is quite small.

Table 2: Correlation matrix

	INST_CHANGE	INST_FRGN_CHANGE	INST_DOME_CHANGE	FRGN_CHANGE	FRGN_CORP_CHANGE	CROSS_CHANGE	ANTEI_CHANGE	BRD_CHANGE	ID_CHANGE	EROE3_CHANGE	ROE05_10
INST_CHANGE	1										
INST_FRGN_CHANGE	0.70	1									
INST_DOME_CHANGE	0.61	−0.14	1								
FRGN_CHANGE	0.70	0.98	−0.11	1							
FRGN_CORP_CHANGE	−0.01	−0.12	0.13	0.08	1						
CROSS_CHANGE	−0.07	−0.07	−0.02	−0.07	0.01	1					
ANTEI_CHANGE	−0.40	−0.29	−0.23	−0.28	0.06	0.13	1				
BRD_CHANGE	0.07	0.08	0.02	0.08	0.00	0.01	0.03	1			
ID_CHANGE	−0.01	0.00	−0.02	0.00	−0.03	−0.01	0.03	0.10	1		
EROE3_CHANGE	0.22	0.13	0.16	0.13	−0.01	0.00	−0.10	0.04	−0.02	1	
ROE05_10	0.19	0.19	0.05	0.19	−0.01	0.03	−0.04	0.13	0.05	0.18	1

EROE3 has been controlled by industry and firm size. Significant correlation between the change in domestic and foreign institutional investors and the change in EROE3 is noted (Table 3). The change in the number of stable shareholders, board of directors, and the number of outside directors did not have an impact on the change in EROE3.

Table 3: Summary of regression results-EROE3_CHANGE as dependent variable

	1		2		3	
	coefficient	p-value	coefficient	p-value	coefficient	p-value
C	0.943	0.051	0.951	0.049	0.955	0.048
INST_FRGN_CHANGE	0.352	0	0.347	0	0.338	0
INST_DOME_CHANGE	0.461	0	0.466	0	0.457	0
FRGN_CORP_CHANGE			-0.196	0.518	-0.188	0.536
ANTEI_CHANGE					-0.022	0.670
BRD_CHANGE	0.120	0.405	0.121	0.403	0.124	0.389
ID_CHANGE	-0.258	0.572	-0.260	0.569	-0.255	0.577
R^2	0.047		0.047		0.046	

Table 4 shows the result of multiple regression analysis. The mean ROE during 2005- 2010 is defined as the dependent variable. Similar to EROE3, the change in domestic and foreign institutional investors' shareholding has a significant positive correlation.

Table 4: Summary of regression results-ROE05 10 as dependent variable

	1		2		3	
	coefficient	p-value	coefficient	p-value	coefficient	p-value
C	4.946	0	4.941	0	4.894	0
INST_FRGN_CHANGE	0.296	0	0.297	0	0.302	0
INST_DOME_CHANGE	0.133	0.004	0.132	0.004	0.134	0.004
FRGN_CORP_CHANGE			0.052	0.797	0.050	0.805
CROSS_CHANGE					0.089	0.123
BRD_CHANGE	0.378	0	0.378	0	0.375	0
ID_CHANGE	0.457	0.132	0.460	0.130	0.465	0.125
R^2	0.053		0.052		0.053	

Next, one-way ANOVA and multiple comparison analysis is conducted to examine the difference between the groups by classifying the firms into five groups in accordance with the change in ownership share of institutional investors as

mentioned in section 4.1. The descriptive statistics of the relationship between the change in the ratio of ownership share of institutional investors and firm performance appear in Table 5. The mean value of ROE employed to measure the financial performance is higher in group 5, indicating that the group with the highest increase of institutional ownership share shows better performance than other groups. This indicates that institutional investors select firms for investment based on the performance of ROE, which has correlation with share price. In order to examine whether there is a significant difference between the groups one-way ANOVA was carried out (Table 6). Since the equality of variances is not confirmed by F-test, differences in mean values in ROE were assessed with Tamhane multiple comparison procedure. The results of the assessment show that a statistically significant difference was observed at 1% level between the group 1, 3, 4, and the group 5, and at 5% level between the group 2 and the group 5. It was also found that a statistically significant difference was observed at 5% level between the group 1 and 3 (Table 7). Thus, it is confirmed that the institutional investors selected the investee firms by attaching high priority to ROE.

Table 5: Descriptive statistics

		Number of firms	Mean	Standard deviation	Maximum	Minimum
ROE	1	266	1.66	12.44	33.15	-104.91
	2	267	3.80	13.80	31.38	-190.19
	3	267	3.94	9.43	36.81	-78.71
	4	267	4.23	6.92	31.86	-24.89
	5	267	6.68	6.33	32.01	-2.87
	total	1334	4.06			

Table 6: One-way ANOVA

		Sum of square	Degree of freedom	Mean square	F-ratio	P-value
ROE	between groups	3398.013	4	849.503	8.135	.000***
	within groups	138788.744	1329	104.431		
	total	142186.757	1333			

Note: *** denotes statistically significant at the 1% level.

Table 7 : Multiple comparison of ROE

Dependent variable: ROE	group	group	P-value
Tamhane	1	2	.463
		3	.162
		4	.033**
		5	.000***
	2	1	.463
		3	1.000
		4	1.000
		5	.021**
	3	1	.162
		2	1.000
		4	1.000
		5	.001***
	4	1	.033**
		2	1.000
		3	1.000
		5	.000***
	5	1	.000***
		2	.021**
		3	.001***
		4	.000***

Note: ** denotes statistically significant at the 5% level and *** denotes at the 1% level.

5.2 France

A multiple regression analysis was conducted to see whether institutional investors had contributed to the improvement of firm performance. As explanatory variables, the changes in board structure and independent directors (auditors), introduction of employee director, and shareholder composition as well as the change in the ratio of share ownership of institutional investors were considered. Firm size and industry dummy are also added as control variables. It turned out that result of the analysis with ROE as dependent variable is not a good model as R^2 is low and the significance probability of the F value is high. However, the analysis with ROA as dependent variable revealed that model 2 which includes control variables is superior to model 1. It was found that in model 2 it is not significant in relation to the changes in share ownership of institutional investors, but, it is significant at the 5% level in relation to shareholder composition and firm size, and also significant at the 10% level in relation to the changes in independent directors (auditors). The coefficient of the change in board structure and independent directors (auditors), introduction of employee director are negative, albeit they are not significant, suggesting that separation of the chairman and CEO, the change in independent directors (auditors), and introduction of employee director had a negative impact on firm performance (Table 8).

Table 8：Summary of regression results-ROA as dependent variable

	1		2	
	coefficient	p-value	coefficient	p-value
C	3.716	.000	-1.765	.488
Changes in the share ownership of institutional investors	.050	.143	.036	.283
Changes in board structure	-.978	.332	-.928	.336
Changes in independence of board of directors and supervisory board	-.039	.037	-.035	.052
Changes in 3 committees	.154	.768	.089	.859
Introduction of employee director	-3.603	.058	-3.410	.063
Shareholder composition	2.172	.046	2.558	.015
Firm size			1.930	.002
Industry			-.404	.211
R^2	0.109		0.2	

Next, one-way ANOVA and multiple comparison analysis are conducted to examine the difference between the groups by classifying the firms into three groups in accordance with the changes in ownership share of institutional investors during 2005-2010. The descriptive statistics of the relationship between the changes in the ratio of ownership share of institutional investors and firm performance appear in Table 9. Number of samples is 111 SBF120 companies whose financial data and the ratio of share ownership of institutional investors were available, and the effect of the changes in the ratio of share ownership of institutional investors on firm performance was carried out. The results of one-way ANOVA and multiple comparison analysis can be summarized as follows (Table 10 & 11):

(ⅰ) The mean value of ROA and ROE is the highest in group 3, indicating that the group with the highest increase in institutional investor's ownership share shows better performance than other groups. Statistically significant difference of ROE was observed at the 10% level between the group 1 and 3.

(ⅱ) Institutional investors had invested in a good company with high capital efficiency, i.e. high ROE. There exits positive correlation between ROE and share price and, therefore ROE is regarded as an important financial indicator for investment. It is confirmed that institutional investors attach importance to this indicator from the viewpoint of investment efficiency.

(ⅲ) The mean value of TobinQ in group 1, the least increase in share ownership by institutional investors, is the highest among the three groups. This is attributed to the fact that there was a company whose value of TobinQ was more than 10 during 2005-2006, but subsequently rapidly decreased to about 1 (Euro Disney). In addition, the value of TobinQ of three companies ranged from 3 to 4 during the analysis period (Hermes Intl, Dassault Systemes, Nicox). It might be surmised that judging from the high value of TobinQ the market anticipates greater profitability in the future for the three companies.

Table 9：Descriptive statistics

		No. of firms	Mean	Standard deviation	Standard error	95% confidence interval for the mean value	
						Lower limit	Upper limit
TobinQ	Group 1	37	1.5270	.99253	.16317	1.1961	1.8580
	Group 2	37	1.3424	.38825	.06383	1.2130	1.4719
	Group 3	37	1.3962	.90060	.14806	1.0959	1.6965
	Total	111	1.4219	.80202	.07612	1.2710	1.5728
ROE	Group 1	37	2.2762	28.68489	4.71577	-7.2878	11.8402
	Group 2	37	11.2405	7.95267	1.30741	8.5890	13.8921
	Group 3	37	20.7370	52.73655	8.66984	3.1538	38.3203
	Total	111	11.4179	35.46140	3.36585	4.7476	18.0882
ROA	Group 1	37	3.5230	7.54957	1.24114	1.0058	6.0401
	Group 2	37	4.7995	3.16156	.51976	3.7453	5.8536
	Group 3	37	5.4895	5.63713	.92674	3.6099	7.3690
	Total	111	4.6040	5.74404	.54520	3.5235	5.6844

Table 10: One-way ANOVA

		Sum of square	Degree of freedom	Mean square	F-ratio	P-value
TobinQ	Between groups	.667	2	.333	.514	.600
	Within group	70.090	108	.649		
	Total	70.757	110			
ROE	Between groups	6306.575	2	3153.287	2.580	.080*
	Within group	132019.617	108	1222.404		
	Total	138326.191	110			
ROA	Between groups	73.662	2	36.831	1.119	.330
	Within group	3555.675	108	32.923		
	Total	3629.336	110			

*denotes statistically significant at the 10% level.

Table 11: Multiple comparison of ROE

Dependent variable: ROE		Changes in the share ownership of institutional investors	Changes in the share ownership of institutional investors	p-value
ROE	Tukey HSD	1	2	.514
			3	.064*
		2	1	.514
			3	.475
		3	1	.064
			2	.475

* denotes statistically significant at the 10% level.

8. Concluding Remarks

Currently, global equity markets are characterized by a rapid increase in institutional investors, which have become an important element affecting the corporate management. Since early 2000s, institutional investors in Japan and France have become vocal and keen to exercise the voting rights to perform fiduciary responsibility. In accordance with the changing behavior of institutional investors, firms in both countries can no longer ignore the voice of institutional investors and the behavior of institutional investors has become an extremely important factor in considering firm management. Under the circumstances, this paper attempted to reveal the investment behavior and the effect of monitoring by institutional investors on firm performance. It was found that there is a statistically significant difference between the change in institutional investors' shareholdings and ROE, proxy for firm performance, in Japan, whereas a significant difference was not observed in France. However, by classifying the firms into three groups based on

the change in the ownership share of institutional investors during 2005-2010 in France, it was observed that the mean value of ROE in group 3 is higher than in other groups, indicating that the group with the highest increase of institutional investor's ownership during the period shows better performance than other groups. The results imply that institutional investors select firms for investment based on the expected performance of ROE in both countries. As corporate activities become globalized, international portfolio investment by foreigners is likely to further increase in the foreseeable future. It is expected that the shareholding of institutional investors will rise in Japan and France due to an increase in investment trust. However, if short-term oriented institutional investors such as hedge funds dominate the institutional investors, it does not necessarily lead to the value creation of firms. If there is a positive correlation between institutional investors' behavior and firm value, an enhancement of firm performance will contribute to reactivate the capital market in Japan and France, thus making a favorable impact on economic activities in general. In this regard, Japanese and French firms are called upon to make efforts in enhancing the value creation.

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